

Message Text

SECRET

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53

ACTION SS-30

INFO OCT-01 ISO-00 SSO-00 NSCE-00 /031 W

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P 161700Z MAY 74

FM AMEMBASSY KINGSTON

TO SECSTATE WASHDC PRIORITY 4733

S E C R E T KINGSTON 1721

EXDIS

E.O. 11652: GDS

TAGS: EMIN, PINT, US JM

SUBJ: BAUXITE NEGOTIATIONS SITREP 52

REF: KINGSTON 1701

1. AT 2:00 PM ON TUESDAY, MAY 14 CHARGE CALLED ON MR. JACK ASHENHEIM AT THE OFFICES OF MEYER, FLETCHER AND GORDON TO GO OVER GOJ CALCULATIONS CONCERNING BAUXITE REVENUE ISSUES. ASHENHEIM PRODUCED TWO PAPERS WHICH PROVED TO BE CALCULATIONS OF RELATIVELY RECENT DATE DEVELOPED TO REFUTE THE ARGUMENT BY THE COMPANIES THAT THEY WERE UNABLE TO PAY THE GOVT'S DEMANDS. ASHENHEIM EXPLAINED THAT HE HAD NOT FORMED PART OF THE INITIAL NEGOTIATING TEAM AND HAD BEEN BROUGHT INTO THE NEGOTIATIONS AT MID-STREAM WHEN THE ABILITY TO PAY ISSUE BECAME CENTRAL TO THE ARGUMENT. HE INSISTED HE DID NOT KNOW WHAT STUDIES HAD BEEN MADE DURING THE PREVIOUS TWO YEARS OR BY WHOM, NOR DID HE KNOW OR WISH TO KNOW HOW THE GOVT'S 7.5 PERCENT (REDUCED FROM 8.75 0/0) DEMAND HAD BEEN ARRIVED AT. SPECIFICALLY, HE SAID HE DIDN'T KNOW WHETHER THE GOVERNMENT'S MOTIVES IN STATING THAT FIGURE WAS POLITICAL OR ECONOMIC AND HE DIDN'T PARTICULARLY CARE. HIS JOB WAS TO MAKE A CALCULATION BASED ON CERTAIN ASSUMPTIONS, WHICH HE HAD DONE. IF THE ASSUMPTIONS WERE SOUND, HE SAID, HIS CALCULATIONS KNOCKED THE INDUSTRY'S CLAIM OF INABILITY TO PAY INTO A COCKED HAT. HE THEN TOOK CHARGE THROUGH THE TWO PAPERS STEP BY STEP. BOTH PAPERS DEALT ONLY WITH ALCOA, KAISER, AND REYNOLDS. THE FIGURES USED

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CAME PRIMARILY FROM SEC 10-K REPORTS. ALCAN WAS OMITTED

BECAUSE IT DOES NOT FILE 10-K REPORTS AND ANACONDA AND REVERE WERE CONSIDERED TO BE TOO SMALL TO WORRY ABOUT. ONE PAPER DEALT WITH EACH COMPANY AND THE TOTAL OF THE 3 OF THEM ON A WORLD WIDE BASIS WHILE THE OTHER DID THE SAME BUT ONLY WITH RESPECT TO BAUXITE DERIVED IN JAMAICA. AT THE END OF ASHENHEIM'S EXPOSITION CHARGE AGREED THAT THE MATHEMATICS SEEMED SOUND AND SAID HE COULD MAKE NO JUDGMENTS ON THE ASSUMPTIONS. THESE PAPERS BEING TRANSMITTED BY SEPTEL

2. CONVERSATION THEN SHIFTED TO MORE GENERAL SUBJECTS. CHARGE ASKED ASHENHEIM, AS ONE FRIEND TO ANOTHER, JUST WHAT LEVEL THE GOVERNMENT MIGHT SETTLE FOR IF THE INDUSTRY COULD BE PERSUADED TO MEET IT. ASHENHEIM SAID HE WASN'T PRIVY TO THE SECRETS OF THE INNER CIRCLE, BUT HE FELT REASONABLY SURE THAT THE GOVERNMENT WOULD ACCEPT A FIGURE OF 5.5 0/0 OF THE PRICE OF PRIMARY METAL IN THE U.S. PROVIDING IT WAS COUPLED WITH AN ESCALATION CLAUSE AT PRICES ABOVE 36 CENTS OR SO. IN FACT, HE SAID THAT IF THE COMPANY CHIEF EXECUTIVE OFFICERS WERE WILLING TO GO TO 5.5 0/0 FAIRLY QUICKLY IN THAT AFTERNOON'S MEETING AND NEGOTIATIONS THEN AND WEDNESDAY NIGHT COULD FOCUS ON THE DEVELOPMENT OF A MEANINGFUL ESCALATION CLAUSE HE FELT THE ISSUE COULD BE WRAPPED UP FAIRLY QUICKLY. CHARGE ASKED IF THIS WOULD BE A SHORT-TERM AGREEMENT IN THE NEIGHBORHOOD OF 3 YEARS OR WHETHER A LONGER PERIOD WAS CONTEMPLATED. ASHENHEIM SAID THAT HE THOUGHT A LONG-TERM AGREEMENT--PERHAPS AS MUCH AS 20 YEARS--WOULD BE POSSIBLE IF THE ESCALATOR CLAUSE LOOKED GOOD. CHARGE THEN ASKED WHAT THE ATTITUDE OF THE GOJ WAS AT THIS TIME TOWARDS MAKING PROVISIONS WHICH WOULD ALLOW THE INDUSTRY TO CLAIM TAX BENEFITS IN THE UNITED STATES AND CANADA. ASHENHEIM REPLIED THAT IF A NEGOTIATED SOLUTION COULD BE ACHIEVED ON SOMETHING LIKE THE BASIS HE JUST DESCRIBED THE GOVERNMENT WAS FULLY DISPOSED TO BE AS HELPFUL AS IT COULD TO THE INDUSTRY IN SOLVING ITS TAX PROBLEMS, AND EVEN IF IT WAS NECESSARY FOR THE GOVERNMENT TO GO TO THE LEGISLATION THERE WAS NO DISPOSITION TO BE VINDICTIVE IN THE WAY THAT LEGISLATION WAS DRAFTED.

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ON THE OTHER HAND, IT MUST BE UNDERSTOOD THAT IF THE GOVERNMENT WENT TO LEGISLATION IT WOULD NOT INCONVENIENCE ITSELF FOR THE SAKE OF PROVIDING THE INDUSTRY WITH THE OPPORTUNITY OF TAX BENEFITS ELSEWHERE

3. COMMENT. WHILE ASHENHEIM'S REMARKS ABOUT THE KIND OF SETTLEMENT THE GOVERNMENT MIGHT AGREE TO WERE LABELED AS UNOFFICIAL AND OFF THE RECORD THEY HAD TO BE REGARDED

AS A SIGNAL OF SORTS SINCE THE MEETING BETWEEN HIM AND
THE CHARGE HAD NOT ONLY BEEN AUTHORIZED BUT HAD ACUTALLY
BEEN ARRANGED BY PM MANLEY. IN RETROSPECT ITIS EVIDENT
THAT MANLEY AND HIS ADVISORS ATTACHED EXTRAORDINARY
IMPORTANCE OT THE AHSENHEIM CALCULATIONS. PM'S FREQUENT
REFERENCES IN CONVERSATIONS WITH CHARGE TO THE FIGURES
JUSTIFYING HIS POSITION APPEAR TO BE TO THE
ASHENHEIM CALCULATIONS . THIS IS SUPPORTED BY HIS
REFERENCE TO ASHENHEIM IN HIS SPEECH TO PARLIAMENT
YESTERDAY. HEWITT

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